

# The Free

*"If you don't create a free market, a black market will emerge"*

# Market



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*The Lithuanian Free Market Institute (LFMI) started the 1<sup>st</sup> quarter of 2007 by further actively analysing its strategic topics. During this period we organised nearly ten seminars and press conferences and submitted a number of policy papers and proposals on topical free-market issues to relevant Lithuanian authorities and the society at large.*

*In this issue of "The Free Market" we offer our readers a brief overview of major activities carried out in January through March 2007. We briefly present our proposals to increase the share transferred to private pension funds to 10 percent and to cut the personal income tax more sizeably, LFMI's position on the argument of security in the transport and energy sectors and a summary of other activities.*

*Apart from the "News" section, we also present a comprehensive article "You can't Deceive Yourself or Why Intellectuals Love Socialism" by LFMI's Vice President Dr. Guoda Steponavičienė ("Opinion"). In the section "Myths" LFMI President Dr. Remigijus Šimašius analyses how myths about energy threatens our welfare.*

*LFMI is actively continuing its activities and wishes our readers pleasant reading and the steersmen of economic policy – wisdom to adopt decisions that ensure welfare...*

Sincerely

Remigijus Šimašius

LFMI's President

## TAX POLICY

### **> LFMI proposes raising the share directed to private pension funds to 10 percent**



On 23 March 2007 the Lithuanian Free Market Institute (LFMI), in co-operation with the Parliamentary Committee of Social Affairs and Labour, organised a seminar ***“The Future of the Pension System: Demographic Trends and Financial Sustainability”*** which took place at the Parliament of Lithuania

LFMI was honoured to present Martin Chren, a social policy analyst from Slovakia, as one of the speakers of the event who delivered a presentation on Slovakia's experience in conducting pension reform. Currently, Mr. Chren is the Executive Director at the F. A. Hayek Foundation, the biggest and most active think-tank in Slovakia.

At the seminar, LFMI presented its analytical material entitled ***“Why must Lithuania Continue its Pension Reform?”*** The analysis states that, according to projections of the European Commission, if Lithuania retains its current pension system, it will be confronted with growing public expenditure on pensions notwithstanding an increase in the retirement age, whereas in Latvia and Estonia government expenditure on pensions will decrease as a result of more thoroughgoing reforms implemented in these two countries. If Lithuania does not resolve to carry out more sweeping changes in its pension system, it will be faced with problems of financial sustainability triggered by demographic causes, such as rapidly increasing transfers for pensions and a growing state budget deficit and debt, while the private share of the pension will play no essential role whatsoever as regards the individual's financial wellbeing at the retirement age.

Poland, Hungary and Slovakia have all chosen a larger share of social insurance contributions to be transferred to private pension funds – 7.3, 8 and 9 percent respectively, and Latvia will be directing a 10-percent share starting from 2010.

LFMI proposes to allocate about 800 million litas for furthering the pension reform. The share of social insurance contribution directed to private pension funds must be raised to 10 percent starting from 2010, just as it has been scheduled in Latvia. This can be attained by increasing this proportion by 1.5 percentage points each year – to 7 percent in 2008, 8.5 percent in 2009 and 10 percent in 2010.

*The analysis is available only in Lithuanian.*

### **> Overheating or a loss of steam threatens the Lithuanian economy?**

On 12 April 2007, LFMI presented its 19th survey of the Lithuanian economy, covering estimates of economic indicators for 2006 and updated forecasts for 2007.

According to the survey of market participants conducted in January and February 2007, Lithuania's economic growth was strong in 2006 and is predicted to remain so in 2007. The study shows that the rapid growth is reflected not just in statistical indicators – it has now reached the pockets of the Lithuanian people and is visible in their noticeably increasing living conditions.

Started in 2006, the campaign against illegal “envelope” wages has exerted no influence on the scope of the informal sector in Lithuania – the shadow economy still accounts for about one-fifth of the entire economy. Market participants polled by LFMI think that the administrative burden either remains unchanged or is growing. This provokes non-productive investments, ineffective distribution of labour and capital and corruption.

Optimism is also being undermined by Lithuania's unreceptive, and not improving, investment climate, extensive emigration and a vacuum of government's constructive policy in attempting to resolve these problems and launch serious reforms in the education, healthcare and pension systems and public expenditure.

A summary of the survey results can be downloaded at the following address:

[http://www.freema.org/index.php/research/market\\_participants\\_overheating\\_or\\_a\\_loss\\_of\\_steam\\_threatens\\_the\\_lithuanian\\_economy/4181](http://www.freema.org/index.php/research/market_participants_overheating_or_a_loss_of_steam_threatens_the_lithuanian_economy/4181).

### **> LFMI urges to cut the personal income tax more sizeably**

On 6 February 2007, LFMI staged a press conference on labour taxation and called on the Lithuanian authorities once again to reduce the tax burden on labour more significantly.

At the press conference, LFMI put forth the following recommendations on how to cut the personal income tax and to retain the state budget balanced at the same time:

- To slash the personal income tax (PIT) to 20 percent starting from 1 January 2008 and to 15 percent starting from 1 January 2009. A reduction of the personal income taxation would increase Lithuanian's real income and would be especially beneficial for the overall economy given the existing shortage of labour, considerable economic emigration and the need for enhancing Lithuania's competitiveness.
- To eliminate all exemptions of the value added tax (VAT) starting from 1 January 2008. Exemptions on VAT distort consumption and competition by building privileged conditions for a small group of producers.
- To announce about the planned reduction of PIT already in the 1<sup>st</sup> quarter of 2007. Lithuanian laws stipulate that any change adopted in the country's tax regime must be announced at least six months before it comes into effect.
- It is crucial to effect both of these changes in the tax system simultaneously because they will outweigh each other financially and will pose no negative effect on budget revenues and budget deficit. The removal of VAT exemptions would generate more than 300 million litas of extra revenues in the year 2008 – not less than the amount, in LFMI's belief, that the state budget might lose in the short run, if PIT was reduced to 20 percent instead of the planned 24 percent.

## EMPLOYMENT REGULATIONS

### > “Envelope” wages are declining, but their share remains still large



A leading Lithuanian news portal Delfi.lt posted an extract on the shadow economy from the Lithuanian Survey of Economy carried out by LFMI, 16 April 2007.

“LFMI presented a survey of the Lithuanian economy and concluded that started in 2006, the campaign against illegal “envelope” wages has exerted no influence on the scope of the informal sector in Lithuania, which continues to account for about one-fifth of the entire economy.

The results of the LFMI survey indicate that the shadow economy was about a half percentage point smaller in 2006, compared to 2005, down from 21 percent to approximately 20.7 percent of GDP. It is expected that the shadow economy will contract this year and will account for about 19.5 percent of the entire economy. According to the study, the share of workers receiving unofficial wages remains still considerable – about 41 percent, although it is declining.

Market participants believe that the campaign against “envelope” payments to workers and the related cases brought to publicity are the main reason behind shrinking unofficial wages.

The reduction of the personal income tax, growing employees’ awareness and a need for bank loans, plus the shortage of labour and surging earnings, are among other factors of diminishing “envelope wages.”

[Press for the link to the source...](#)

### > LFMI comments on the Government-proposed strategy for controlling economic migration

On 7 February 2007, a news portal Alfa.lt posted a commentary by LFMI’s Senior Policy Analyst Giedrius Kadziauskas on the Lithuanian Government’s plans to adopt a national strategy for controlling economic migration.

One field of the government-planned activity is to inform society, migrants and foreign audiences about “positive social and economic changes in Lithuania seeking to soft-pedal the negative attitudes about Lithuania’s economic, social and political situation.” Dissemination of “objective information” about conditions for starting and developing business in Lithuania has been presented as a setoff for pessimistic and bitter valuations of the media and economists. Government authorities plan to issue “informational press releases to the Lithuanian and foreign media” about the Lithuanian economy, the situation and trends in the labour market; emigrants will be attracted to return to an ever-improving and increasingly beautiful Lithuania.

The draft strategy also envisages other grounded and indispensable measures, such as building favourable conditions for business and employment in Lithuania, eliminating the remaining administrative barriers to the free movement of people and capital and also the obstacles to return to Lithuania freely: to ensure that diplomas of foreign education establishments are acknowledged in Lithuania.

An information campaign is a politically attractive tool to entice emigrants back because it’s clearly visible. It rests on the belief that the reality is better than that the leaving people managed to discern, so by issuing more information the authorities will reveal to them the better side of their homeland.

However, it is predicated on false conviction that migrants are not fully aware of what they have done or that a lack of information impedes their understanding of this fact and that an overall shortage of information prevents them from coming back.

The Lithuanian Government should not channel their focus and resources away from essential means capable to curb incentives to migrate – creating more comfortable conditions for earning in Lithuania by cutting red-tape for business, launching healthcare and education reforms to ensure long-term quality of living and starting an overhaul in the public administration sector to eradicate people being humiliated by civil servants.

However, this entails a political will, not just a strategic “implementation of monitoring, analysing, disseminating information and enhancing administrative capacities” as it’s been laid down in the draft strategy.

The full text of the commentary (in Lithuanian) [can be downloaded here](#).

## ENERGY POLICY

### > LFMI presents analytical material on the argument of security in the energy and transport sectors



On 7 February 2007 LFMI held a conference “Economic Threats and Economic Security. Who Pays the Bill?” and presented its analytical material.

The argument of security is used to justify certain aspects of regulation in the energy and transport sectors, regulation of activity, government interference and influencing reforms in these sectors. In LFMI’s opinion, the argument of security must be well-considered and security itself must be evaluated, as it is linked with specific economic consequences.

Experience shows that a country, especially if it imports the bulk of its energy resources from abroad, is in principle unable to pose an effect on low energy prices. A country importing energy products may actually influence only those energy prices that



emerge inside the country – only that segment of the price which changes due to government regulation.

Government-applied measures of security restrict foreign capital's entry to certain areas of the economy, the transport and energy sectors in particular. These measures may shield an economy from the influence of foreign capital but at the same time they may discourage western capital, the forms of management and practices to enter into the strategic sectors of the national economy, which is desirable seeking to integrate these sectors into EU's market.

In conclusion, the argument of security must be applied rationally and only with respect to those issues where the threats to security are clear, definite and, most importantly, where the application of security means may bring real results. Otherwise, resources will be wasted in vain, real threats will not be averted and, at worst, the effect of security measures will turn out to be as harmful as the evasive threats themselves.

*The full text of the analysis is available only in Lithuanian.*

### > LFMI's position on building a new nuclear power plant

*In January 2007 LFMI staged a press conference "The new nuclear power plan is business, not politics" and presented its position on building a new nuclear power plant in Lithuania".*

According to LFMI, building a nuclear power plant (NPP) is a risky business project, for this reason all related decisions must be driven by business logics, not political motives alone. Decisions regarding NPP must be adopted by investors (by companies the Lithuanian Energy, Latvian Energy, Estonian Energy and others). The Lithuanian Ministry of Economy or the Lithuanian Government should not take a direct part in solving business issues or in selecting potential investors in NPP; this influence must be exerted only through the position of the Ministry-appointed representatives in the management body of the Lithuanian Energy.

Recommendations by LFMI:

- **Raising private capital to the NPP project would reduce the financial risk of the Lithuanian Government and would allow the project's real price and risk to emerge.** Therefore, it should not be even debated what other investors are "allowed" to participate in the project. Given the need for funds, an open emission of new NPP shares should be carried out. Emission of shares would best distribute the influence among investors and thus simplify the management of the new NPP.
- **Selling shares in the stock exchange and attracting private investors would partially settle the issue of funds needed for construction,** which in its turn would grant more opportunities in choosing the capacity of NPP. More to that, selling part of shares in the stock exchange, by affecting the price dynamics, would reveal the potential problems and advantages and would add more publicity and transparency to the overall NPP project.
- **Intergovernmental agreement to take part in the NPP project by equal rights does not block participation of private capital.** Various combinations of distribution of shares and control are possible; however, control, the amount of capital invested and liability are interrelated dimensions. The new NPP will be built in Lithuania's jurisdiction and will operate under the Lithuanian law (price regulation, the disposal of nuclear waste, etc.). That is why, although granting controlling interest to Lithuania is basically a matter of negotiations, it should be seriously

contemplated, whether Lithuania has substantial resources to seek controlling interest.

*A full text of the analysis is available in Lithuanian only.*

### > LFMI's commentary "We don't Need no Revolutions"

*In February 2007 a Lithuanian political weekly Atgimimas published a commentary by LFMI's Policy Analyst Žilvinas Šilėnas on progressing debates over climate change in the Lithuanian society. This piece was later cited by EUobserver.*

Even though the Intergovernmental Panel on Climate Change has not released the full version of the Fourth Assessment Report, eager politicians started to cash in on the impending catastrophe and collect "green points". The European Commission has ordered a revolution in the energy sector, and Jacques Chirac in a true revolutionary spirit invited everyone to join France in fighting climate change. "The time is for a revolution" he said, "We are on the verge of the irreversible."

The science settled among the politicians and global warming is now more of a political phenomenon rather than a climatic one. Too many politicians have staked their reputations on climate change to allow for objective and depoliticized debate. After all it is much easier to scare the electorate with doomsday stories rather than solve real problems, i.e. the declining competitiveness of the EU or the inability to fulfil the Lisbon agenda, not to mention catching up with the US.

EU definitely has many other problems with the energy sector which have to do with guaranteeing long term supply of oil and gas as well as creating a true common market for energy. But to increase prices for energy and to decrease overall competitiveness based on yet unclear image of what may happen after 100 years is rash and irresponsible. Climate needs to be depoliticized and studied further by scientists, not politicians.

"Measure nine times, then cut" as the ancient Lithuanian proverb goes. It is a pity that ancient wisdom is often ignored when big politics is concerned.

*A complete text of the commentary [can be downloaded here](http://www.freema.org/index.php/menu/newsroom/articles_comments/we_dont_need_no_revolutions/4092) ([http://www.freema.org/index.php/menu/newsroom/articles\\_comments/we\\_dont\\_need\\_no\\_revolutions/4092](http://www.freema.org/index.php/menu/newsroom/articles_comments/we_dont_need_no_revolutions/4092)).*

## **OTHER AREAS**

### > Lithuania's long-term development needs changes in the healthcare system



*On 20 April 2007 the Lithuanian President's Office and LFMI organised a conference "The Healthcare System – Time for Change."*

Participants of the event debated the current situation in the healthcare system and possible impulses for its long-term development.

In his welcome address, President of Lithuania Valdas Adamkus highlighted that the reform of the healthcare sector has been trapped and lacked clearness and expediency. The President also stressed that the existing status of the healthcare reform had led to both deteriorating quality of healthcare services and their accessibility.

According to Mr. Adamkus, seeking to ensure that every citizen had access to the system, it is vital to let private initiative into this field on equal rights. President Adamkus positively commented the recently adopted decisions which eliminated bureaucratic restrictions at a municipal level for the establishment of private healthcare institutions and recognised them as equal players of the healthcare system in concluding contracts with the State Patient Accounts for service provision. The President also pointed that increasingly more attention is being given to early diagnostics of illnesses.

The country's leader emphasized that with European Union's financial support Lithuania has a unique possibility to embark on a long-term structural overhaul of the healthcare system, but it is crucial to perceive in the first place what model of the healthcare system Lithuania is willing to create, what needs to be changed to make the system more up-to-date, effective and, most importantly, corresponding to the patients' needs.

### **> LFMI's analysis on governmental policy of alcohol and tobacco control**

*On 13 March 2007 LFMI submitted its policy proposal to relevant authorities on how to streamline legal acts regulating the activities in the tobacco and alcohol markets and the functions of supervising state institutions.*

The alcohol and tobacco markets are among the most heavily regulated sectors of economic activity in Lithuania. The entire regulation of this market is part of a governmental policy of alcohol and tobacco control. Its major goals are to seek a reduction of the consumption of alcohol and tobacco products and to diminish the damage of their consumption.

The essence of this analysis is to show that the chosen instruments of alcohol and tobacco control and the existing system of their implementation and control have negative effects on consumers and transparent competition on the market and do not help to attain the said goals.

The LFMI's analysis encompasses an overview of the objectives of the policy on alcohol and tobacco control and the institutions responsible for their achievement. It disputes the functions of the State Service of Tobacco and Alcohol Control, a separate, specialised state institution controlling the activities in the tobacco and alcohol markets. The paper also presents the problems and consequences that arise due to regulation and its implementation. Finally, the study provides conclusions and policy recommendations on how to shift the policy of alcohol and tobacco control and its implementation.

*The analysis is available in Lithuanian only.*

### **> LFMI stages a conference on land planning and land use**

*On 20 February 2007, LFMI held a conference "How will We Plan and Use Land Tomorrow? Views from Different Sides." The event aimed at debating what impact land market regulation has on investments and the business environment, analysing the basic aspects of territory planning and evaluating the current system's ability to vouchsafe the interests and land owners and neighbours.*

The situation in the Lithuanian land market and territory planning is intense: the process of land restitution has not been completed yet, municipalities are at the height of drawing general (master) plans, and complex procedures of detailed territory planning continue to decrease supply of land plots suitable for economic activity. The present situation appears to be disadvantageous to both land owners and investors.

The goal of the event was to evaluate the current situation in land planning from various perspectives and its weak and strong aspects and to share insights about the prospects to streamline its regulation.

## **OPINION**

### **Myths about Energy Threatens our Welfare**

*Dr. Remigijus Šimašius*

*Who doesn't want to live in nicer surroundings? Who doesn't want that our grandchildren inherited cleaner nature and that the earth resembled a beautiful oasis, not an exhausted desert? Nature's quality is part of the quality of living - there is no argument about that. However, a strange watershed has evolved in the ongoing debates: businesses supplying energy for consumption and various energy products are portrayed as monsters, while those seeking to shackle this type of business at any price are viewed as heralds of responsibility.*

It's no wonder that the scales have been swayed to one side. Here are some illustrations. A month ago a draft report appeared by a group of scientists, rallied by the United Nations, focusing on the tendencies of global climate warming, the potential man-made influence on it and its likely consequences. Although the report is still a draft and its final version will be submitted only in half a year, although scientists intimidating the world with deleterious effects of climate change admit they have no determinate evidence to support their statements, and although the United Nations don't even mask they have exerted influence on government-appointed scientists to make sure the report's conclusions were not too mild – all these circumstances do not clog this document to turn into an irrefutable truth and a signpost for policy.

The President of France has declared that denying the fact of climate change and man-made influence on it, in his view, is tantamount to disclaiming holocaust. The German Chancellor, the British Prime Minister and a whole bunch of less influential state officials have announced that Europe needed to do a lot more in order to preserve its future. The media in the West have already started to demonise everyone who dares to question the causes of climate change or its gloomy future prospects.

Once you trust that the "heaven is falling," the road from talk to action is unbelievably short. Leaders of the European Union have already made a commitment to cut emissions of carbon dioxide and to increase the share of the so-called "green energy."

This is three times more compared to the present level, even though subsidising the production of renewable energy resources appears to be costly to consumers already today. If no technological change takes place, this burden will be growing at

a geometric progression in the future because the most usable resources are already being consumed. However, this doesn't seem enough for the leaders of the richest countries who have once said "no" to nuclear energy.

The prohibition to use traditional incandescent electric light-bulbs and a commitment to replace them with more economical (but also more expensive) luminescent ones came into being in Australia only a month ago but it's already being pushed forward in the European Union at the highest level. I am afraid that increases in excise duties, speed limitation in the fine German highways and other regulations are not the last pearls of the new drive.

The action is on, but the questions that this policy's propagators try to sidestep abound. Here are some – from physical to social ones. Can carbon dioxide be treated as poisonous gas if it is a vital substance for plant growth? Is it worth to make stepped-up efforts to reduce carbon dioxide emissions if it's still uncertain that it is the primary cause of the current global climate warming? How can we explain historical facts that periods of cooling and warming have been replacing each other for thousands and millions of years, that melting glaciers today expose the roads paved back in the Roman times, while heat-loving dinosaurs used to live in the vast of Siberia? Doesn't subsidised agriculture in Europe and North America serve as a roadblock to expanding forested territories on the earth (not to mention the tragic effects of such perversions on the poorest inhabitants of the planet)?

If measures intended to save energy, as experience from various nooks of the world and fields confirm, do not curtail energy consumption, but increase comfort, can they be reasonably introduced by coercion? How can we justify the fact that, say, the price of the replacement of electric bulbs and of the implementation of other saving-intended measures would have to be paid by the poorest consumers in inadequate proportion to their abilities (while they would benefit the least)? Why, if the intention is to cut energy consumption, is the maximal energy price being restricted?

Lithuania has been doing a role of an obedient hand raiser in the latest EU's initiatives, notwithstanding the fact that the existing regulatory instruments are already now both hardly feasible and costly. How can we trust politicians who justify any move in Lithuania by pointing to EU requirements and who at the same time themselves contribute to these regulations without a single attempt at stopping them?

It's understandable that the Russian issue is the most pressing one for Lithuania in the debates over energy policy. But how, in this case, can authorities justify the still widely applied tax subsidy and special support for heating services when all these tools increase both carbon dioxide emission and dependence on Russia? Today we can at least rejoice that the new nuclear power plant might salvage us from the most thumping negative impact of the new regulation.

But the issue is still much more acute: in the face of the allegedly falling heaven, all measures are becoming increasingly "justified." If this political hysteria over climate is not stopped, it will turn into a major factor to have destroyed our welfare and freedom.

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## OPINION

*This article was printed in a monthly magazine Naujasis židinys – Aidai (2007 No.3) focusing on issues of religion, culture and society.*

### **You can't Deceive Yourself or Why Intellectuals Love Socialism**

*Dr. Guoda Steponavičienė*

Although that fact that intellectuals tend to hold left views is clear and public, it's difficult to analyse this issue from an analytical point of view. It's simply because it's an emotional topic. When you read and listen to the texts of many intellectuals, you experience that the colleagues of headwork in Lithuania and elsewhere respect, cite, paraphrase or gladly mention in other forms the works of Marx, sucking in arguments from his perception of social relationships.<sup>1</sup> It is regrettable double. First, it's because of aesthetics as they flavour their texts with socialism more than it's enough to spoil them. Second, it's because of logics because the Marxian model has never functioned and couldn't even do so.

Neither Marx nor his followers ever grounded their doctrine theoretically and didn't even see needful to do so – after all, *socialism emerges as a relentless law of history*... Already back at the outset of a socialist state, L. von Mises proved that socialism, as a model of society's self-organisation, is not feasible in general. And there are *no objectively existing societal forces that may change society's consciousness*... I'd say Marx's *Capital* was just a genius public relations plan that helped for certain countries to achieve specific and very painful political goals.

But let's get back to intellectuals. They love socialism more than they consider it to be the truth (can a public relations product be true?) Every intellectual, upon at least looking deeper at the underlying presumptions of socialism – central planning and collective property of the means of production – would fathom that efficiency in such a system is strikingly small, which sooner or later will destroy the entire material welfare that has been created until then or is still being created by individuals who don't obey the system. In addition to that, such an arrangement undermines traditional values and cultivates a "new" man who has been lavishly portrayed in the Soviet literature – from Mayakovskian and Mieželaitis' (Lithuanian poet, representative of social realism) superman to Bulgakov's sharikoff (dog, transformed to a man by medical experiment). It seems that it's enough to take these writings and read them over again – and, most importantly, we all have read them and have even created essays on them. But it's little of a help.

Balancing the arguments of the rightists and leftists in a rational debate, thinking people rather easily accept that the leftward leanings lead to serious illnesses of society. However, tempted by an ordinary sounding catchword, they raise hands in favour of redistribution, the state's patronizing hand, condemning the rich and the romantic Marxists of all nations who acted with rather unromantic measures (e.g. E. Che Guevara). Consequently, this relationship seemingly does not depend on the brain. So it looks even more paradoxical that intellectuals in particular tend to be more left-minded as compared to other groups of society. Can this be driven by the romanticism of struggles and heroes?..

#### **Titles and definitions**

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<sup>1</sup> The biggest number of books sold in the US book-stores is those by Marx as compared to any other thinker.

The Lithuanian public arena abounds with so many self-acclaimed rightists who think and act according to the leftists' logics and values (e.g. when voting) that talking about groupings of leftists and rightists (parties, movements, etc.) loses sense at all, for this reason I will speak at personal level.

Despite abundant and colourful symbols and an array of stereotypes, it's not an easy task to define the left and right ideology. It is even more so as there are plenty of titles and scales of evaluation, and they are all being used inconsistently. For example, a liberal in Europe is an individual with right views, whereas in America – the one holding left outlooks. From an economic standpoint, liberals, conservatives and occasionally Christian democrats are right-minded politicians; in a cultural context, a liberal is more often viewed as the one whose moral attitudes are flexible, while the conservatives and Christian democrats hold well-established beliefs.

I believe in the individual's autonomy in the sphere of moral and spiritual values and do not consider myself to have a criterion for discussing the causes of these choices, so I will restrict myself to analysing only economic left and right views. However, as material things do not exist all by themselves, without the support of consciousness, I will dare to look into how economic choices are linked with the elements of a non-material sphere – values and world-views.

I consciously use words “socialism” and “the left” as synonyms because they differ only in their degree, not in their essence. The left views imply more redistribution, more power to the state to judge and more restrictions on an individual, i.d. more socialism. To proponents of left attitudes, although socialism in its pure form may not be their goal, namely socialist values (the so-called solidarity by compulsion, etc.) are the essential ones. That is why the currently existing ideas about mixed modern economies – the social market economy, the welfare state, modern interventionism and the like – are just the same trick as once was socialism with a human face or an independent Lithuania in the former USSR. True, today Lithuania is a regulated market economy, or perhaps even more a market economy than the old EU member states. However, if the values are socialist, the ratio of liberty and socialism will soon change and we will end up living a western-type version of a socialist republic. And don't expect is to be Scandinavian-type – to attain this we should be clean of those painful experiences that we faced as a society in the past one hundred years and that tarnished us with grievance which gives rise to our current distrust in each other.

Attitudes towards the arrangement of society are shaped not in isolation but have causes that are also manifold. An individual may be “for” distribution only because he intends to benefit from it, rather than give to it (redistribution pays to him). This would be the simplest explanation which should help convince those opponents of the market (it seems that the majority of them) who maintain that an individual in a market decides only based on what is beneficial to him materially and grabs so much as he is capable of, and if the state does not fix this by way of regulation and its apparatus of compulsion, so everywhere around us stretches a wild jungle where the strong butchers the weak.

But the theory of the market does not state that an individual always seeks namely for material use – after all, even when choosing a job a man frequently has other needs than a maximal salary alone, and those needs are the decisive ones (for example, possibilities to grow, to implement ideas, etc.) Besides, it would be logical to notice that there is no jungle around – a great number of people devote their time and knowledge to others without any or with much smaller remuneration than they would be able to receive, or support others financially. Quite a number of such people are visible in the public, but a greater deal of them acts in this way silently.

That is why it makes sense to discuss other incentives that stimulate people's actions, among them being those that direct a considerably influential part of the society, intellectuals, towards left views. Let's start with the simplest ones.

## Pragmatics

The question why intellectuals are predominantly left-minded is widely debated by F. von Hayek in his book *The Intellectuals and Socialism* published in 1949. Hayek points out that, contrary to a widespread belief, socialism has never and nowhere been at first a working-class movement. It is a construction of thought, created by C. Marx, a genuine intellectual himself, just as were his followers. It has taken a long time before this doctrine became spread among the masses and politicians. The issue of intellectuals' views is essential in any epoch. It's because by writing, giving speeches and teaching the nation intellectuals shape public opinion that in a democratic country must be headed by politicians. And it is merely a question of time, says Hayek, until the views held by intellectuals become the governing force of politics.

Most probably because of his own experience, Hayek was particularly concerned about the issue of why the left ideology is prevalent among economists. He states that it is very beneficial for economists to support an interventionist model of the state because it's only there that they can find a good job, if they are unwilling<sup>2</sup> to be occupied in business. The more the state regulates economic activity, prices, interest, etc., the more economists it will require. Another strong group, according to Hayek, is high-school teacher of economics. As the bulk of higher schools are public (in the USA as well) or government-subsidised, the elite of economics is directly interested in retaining this funding. It's surprising that, just as in the case of the Lithuanian higher education reform, the majority of these people would live far better under market conditions because educated, intelligent people are able to adapt to altered conditions – but the fear of change is the swaying factor.

One more rank of intellectuals, to whom an interventionist state and values of socialism are indispensable, is politicians and civil servants. The more freedom for an individual, the less opportunities for politicians to give themselves prominence, the smaller the apparatus of administration and control is needed.

At a closer look from the point of view of time and place, as compared to that described by Hayek, we'll find a very similar experience from Soviet times. Although the Soviet policy was targeted at aggrandizing workers and peasants and discriminating the offspring of the former propertied class, attempts were nevertheless made at moulding a soviet intellectual. It should be said though that this group of the Soviet society was paid small salaries but could enjoy a widely developed system of privileges. Intellectuals were given flats, the most valuable property of that time (and the basic witness to private property), that were build in the most prestigious regions. Writers and other artists were the most privileged group of intellectuals, as Soviet authorities expected a positive depiction of “the soviet reality” from them in exchange. Another privileged stratum was officers from ministries, planning committees and other state institutions (not to mention politicians). So that part of the intelligentsia which survived the shootings and exile were tamed and fed by the Soviet state.

Although the argument of pragmatics is highly insubstantial, I believe that Hayek's insights strongly deserve our attention. First and foremost, it's because they revolve around the moods of the West (capitalist!) world. Second, they were written in the first half of the 20<sup>th</sup> century, whereas today – after more than a decade

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<sup>2</sup> As contemporary guru of business say in a politically incorrect manner, they are lazy or are afraid to go into business.



from the collapse of the Soviet imperia and with a shift in epochs from industrial states to a global knowledge society taking place – nothing's changed. This forces us to search for deeper causes of this phenomenon.

## Education

Another evident reason why educated people may come to favour left ideas is the contents of education. As Hayek's contemplations show, even in the USA professors of economics are the inculcators of the left values, so what can be said about us who have all graduated from Soviet schools or even universities. There was no other doctrine in the field of social sciences than the Marxian one. As this theory is neither rational nor logically consistent<sup>3</sup> but it still had to be learned and examinations taken, other instruments of perception, not intellect, were employed. We crammed the Marxian postulates like myths which, rationally unfathomed, sank deeply into our subconsciousness and which actualize afterwards without much effort when a suitable situation appears.

How else could we explain the vitality of the myth about the antagonistic classes of employers and employees? It seems that already first-grade children are taught this myth, although there is no economic reasoning to ground it. These two groups of individuals are exigent for each other since they can't create anything being isolated. Or let's take a myth about the quantity's inevitable transformation into quality – it is being accepted as a given thing. Isn't it based on this myth that a number of students in higher schools is being constantly increased seeking to create the knowledge society and more laws are adopted and more state institutions are established in order to build a legal state? The myth of a capitalist as an inhuman individual goes back to the Marxian times. Admittedly, it was especially honed in the Soviet literature, cinema and other arts, whereas today it has acquired new forms and is being developed further by imparting the currently fashionable touches (e.g. the movie *The Corporation*).

Those who haven't read Marx (e.g. people who studied in the post-soviet period) deny the impact of his ideas on their views. It's natural that when you don't know it you can't recognise it but it's worth to bear in mind that turning economics into an "objective" science and applied mathematics (M. Keynes, G. Mankiw, J. Tobin) do not fill the layer of values needed for analysing, and there emerges what is professed by the surrounding society. And the academe in most of the world's universities, deliberately or not, believe in the left values, notwithstanding how prettily they are decorated with modern topicalities such as gender equality, globalisation, socially responsible business, etc. Besides, the academe has a deeply ingrained thinking that the prevailing system must be opposed in any case, despite the effects of the recipes proposed (various forms of interventionism in most cases).

## Psychology

How do societies in a market economy and in a socialist system differ from the point of view of responsibility? Essentially. In a market-based model, an individual is free to act and is responsible for his actions that have very tangible consequences. For instance, a man is free to choose a job, but he is also responsible for the outcome if he chooses not to work. In such a case he will be, as it is fashionable to say today, "free

to starve or beg."<sup>4</sup> In a socialist system, an individual is not free to choose a job (or not chose it at all), that is why he's not answerable for the results. If he doesn't work, he will not be allowed not to work or be responsible for that (it's even more convenient in the welfare state: you can enjoy the freedom of not working but you are not in charge for its effects – you'll be granted a social benefit anyway). In a market economy, a consultant faces directly the value of his advice - through the number of new orders, whereas a government advisor (both a bad and a good one) sustains direct responsibility for his advice only in especially rare cases. Under a socialist arrangement, responsibility, just as property, becomes collective. It is a considerable psychological comfort not to be directly responsible for your actions. Public opinion polls confirm this fact: people report that it was better to live in the Soviet times because earnings and the living standard were guaranteed, albeit very low. A market-based system doesn't offer such comfort. Nothing is ensured here: neither jobs, nor wages, nor pensions, nor income in case of an illness or disability, nor savings. It's because nothing in this material world is overall constant and guaranteed. This system provides only opportunities and risks, personal choices between opportunities and risks, instruments to diminish these risks through insurance and personal experience of these choices. I'd say there's nothing brutal, trivial or inhuman about it (as Lithuanian intellectuals keep writing) – indeed, it's very existential...

As Schumpeter points out and Hayek quotes, it is intellectuals that belong to that stratum of society which does not sustain direct responsibility for their actions and which is not required to have practical (specific) knowledge – which is what makes them different from other members of society. Intellectuals – writers, journalists, analysts, teachers, professors, civil servants, advisors – discuss, teach, analyse, evaluate and advise. To put it in other words, they mould the opinion of those who adopt decisions and act (politicians, businesspeople, farmers, hired workers). It's natural that teachers cannot be in direct responsibility for their pupils' thoughts and actions, journalists – for their readers', and advisors – for politicians' as these are the thoughts and actions of quite separate individuals. Actions of an employee working in the field of ideas cannot bear such direct responsibility as that of, let's say, a builder or an investor because the results are dispersed in time and among different, formally unrelated, subjects.

But this doesn't imply that this type of work involves no responsibly at all. It does exist but it cannot be formalised practically.<sup>5</sup> It is individual responsibility. There's is no doubt that namely individual responsibility is that kind of responsibility which holds the largest moral value because neither a legal system nor agreements with other agents cultivates an individual's sense of responsibility. However, it has one significant shortcoming – it either exists or not. And when it doesn't, other members of society have no instruments to amend the situation other than public resent, concern and regret (equally in the same way as I am myself doing now regarding intellectual's left views) because not a single formal institute is capable of changing the behaviour of such an individual. I dare to assert that it's the lack of this particular individual responsibility that gives rise to our discontent with our society, politicians and civil servants.

What has socialism to do about it? It's related with values. Collective responsibility is a conspicuous attribute of socialism, especially attractive to those unwilling to assume individual responsibility and magnetizing them towards the spheres where

<sup>3</sup> Read more on that in L. von Mises's *Socialism, Liberalism in the Classical Tradition, The Anti-Capitalist Mentality, Planned Chaos and Human Action*; L. von Hayek's *Individualism and Economic Order* and *The Road to Serfdom*.

<sup>4</sup> It must be added that freedom does not ensure contents, it only liberates from compulsion. Consequently, freedom to starve or freedom to be full in principle does not exist.

<sup>5</sup> Oh those naïve slogans about politicians' and civil servants' personal responsibility for their decisions!



individual responsibility can be evaded – to the arena of intellectual activity.

There's no talking that intellectuals with individual responsibility find this phenomenon as a real scourge that undermines their motivation and the underpinnings of their outlooks. And it evolves due to rather simple causes: an artificially contracted field of market relations (e.g. by treating education and healthcare as state functions) expands the scope of state-regulated areas. This aggrandizes the state's apparatus and heightens the need to set up new positions that do not demand individual responsibility for the results achieved (not instructions fulfilled), which are taken up by people who purposefully seek them. By the way, our higher education establishments are quite successful at producing this kind of individuals.

## Views

And yet, the psychological argument doesn't seem substantial to me to explain intellectuals' leftism. I believe that the right or left mindset depends on the attitude towards the value of an individual. In this epoch of political correctness, few will admit that the man's value depends on his race, sex, caste (social status), age, education, etc. Although I can bet that the majority think just in this particular way. In this case, luckily, this is not relevant to my topic because I am analysing only economic views – what people think about the value of other people as creators of economic goods. That is, whether it is possible that every individual will find an occupation which he will be capable to pursue and which will be valuable both to him and society.

The ideological presumption of all socialist statements about the need for central planning and collective property is that a man (an ordinary man, not the ruling one) is incapable to find it all by himself. He can't because he didn't receive decent education and proper upbringing in the family, he didn't perceive the need, was naïve, lazy or not intelligent enough in other ways to adopt decisions regarding his economic life. On the other side of it, those who possess substantial education, ideas and capital will necessarily exploit the rest and so create benefit only for themselves alone. Thus, the state must plan and decide all because some are stupid and others are malignant. In practice, these planners are representatives of the government, the most equal of all equals. Of course, they will come out from the circles of intelligentsia as they need to be literate, clever, etc.

Conversely, the doctrine of the market rests on the belief that every individual is in principle capable of finding a job (occupation) and, by conducting it well, of creating value added to society; the greatest chances to implement this exist only in a market-based system. The value created will be close to optimal, if the man is occupied in doing what he's personally able to or what he's willing to do, no matter if it's reselling of goods in the sheet market or creation of biotechnologies in a scientific laboratory. True though, upon inventing macroeconomics and statistics (the major tools of government intervention into economy), the left economists introduced such concepts as a greater or lesser value added. They are perfectly fit to analyse and evaluate a situation, but nothing more.

To obtain a bigger or smaller product an individual is needed all the same – he who undertakes the activity and creates a product without contemplating about a higher or lower GDP growth but heeding only his own abilities, objectives and wants. The market is a pure paragon of democracy – every individual earns upon discovering what others need. Isn't it an expression of democracy that currently a Lithuanian builder earns more than a manager? (I don't compare it with teachers and physicians' salaries as they do not work on the market). Isn't it an expression of democracy (people's fundamental equality) that a seller of knitted sweaters from the times of cooperatives, after he has accumulated capital by travelling to Yugoslavia to sell the

sweaters at the beginning of Lithuania's independence, today is on the board of some robust enterprise?

Let's agree that to many intellectuals this seems just unfair. Unfair because somebody else, not so clever and less educated, was rewarded for not just deliberating during that period but for acting - acting under vague circumstances, rushing about as they could, risking and having no psychological comfort at all.

Just as the bulk of other intellectuals, I myself did not trade in sweaters because I didn't know how (I could knit sweaters but I didn't know how to sell them) and this occupation seemed to me to be degrading my dignity. Not to mention vouchers and Yugoslavia - no clearness, just a mere headache. For this reason I haven't accumulated capital. But today I am absolutely certain that trading in sweaters is equally honourable as analysing the economy or advising investors.

## Fashion

After reading this article or even its title, many fashionable economists or observers would say that it's all antiquities as there is no left or right in contemporary times. Moreover, they'd say there is no good or bad, no fair or unfair today. In the current times only that exists upon which society agrees. For example, if leaders of EU countries agree at the Lisbon summit that the EU economy will be the world's most competitive economy, so it will be so. If the Lithuanian Ministry of Economy agrees (with itself, the European Commission and one or two other Lithuanian institutions) to establish a prestigious university in Lithuania, so that university will become prestigious. It's because economic laws are not valid here, and it doesn't matter that the measures laid down in the Lisbon Strategy do not lead towards competitiveness or that the Lithuanian Ministries of Economy and Education, or even all ministries taken together, cannot found a university that will come to be a prestigious one.

This fashion to consider the truth what all have agreed upon is simply a socialist's paradise. It's because only those can reach an agreement who have been delegated. And those delegated are in the first place those people who rule and represent society. Just as always.

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